

BELARUSIAN MONTHLY ECONOMIC REVIEW



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- New legal acts directed at the development of relationships with the EU.
- Decline of salaries in a number of branches.
- Increasing hard currency deficit and a number of restrictive measures at the currency market.
- Deceleration of exports growth.
- Capital increase for state banks.

Politics: New legal acts directed at the development of relationships with the EU

In November, A. Lukashenko signed two Edicts, directed at the development of the relationships with the EU. These Edicts foresee adoption in the national legislation principles that are considered in the agreement on the establishment of the Commission of the EU in Belarus and assume sign of the frame agreement between Belarus and the EU.

In December, the EU presented the project of the "Eastern Partnership", that assumes close cooperation with six post Soviet countries. Participation of Belarus in the project is considered depending on the further progress in the sphere of democratization. Official representatives of Belarus gave a positive response to this project. Thus, in case Belarus wishes to join this project, a number of further steps directed at the improvement of cooperation in the political sphere may take place. Furthermore, in a medium-term perspective a ratification of the Partnership and Cooperation Agreement signed in 1995 may be expected.

In December, a sitting of the Supreme council of the Union State of Belarus and Russia was cancelled. The parties planned to deal with the issue of the Constitution Act and to sign the agreement on joint air defense. The cancellation of the sitting may witness increasing tensions between the countries.

Real sector: Decline of salaries in a number of branches

In Jan-Oct GDP grew by 10.7% yoy, which is the same as in Jan-Sep. At the same time, in agriculture the growth accelerated, while in industry – due to machinery, food industry and electricity – it decelerated. Increasing of inventories became a remarkable tendency in October, when the stocks reached 54.6% from the average monthly production (49.3% in September) despite usually they decrease in this month. Thus, changing inventories was used as a safety-box in October, which prevented decrease in production because of the demand decline.

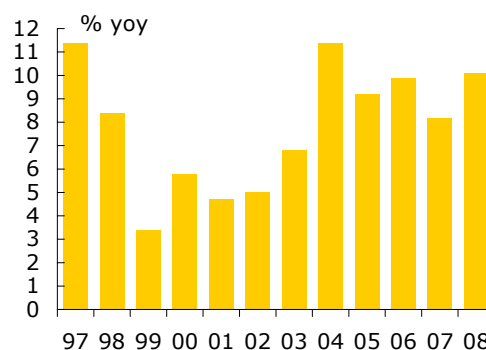
Real wages in Jan-Sep grew by 9.2% yoy, while the labour productivity grew by 10.5% yoy. However, in a number of branches real wages even decreased (in education and administration by 1 and 0.5%). Later, from December 1st. the minimum wage rate was reduced (de-facto its increase in November was reconsidered), which is the benchmark for wage-setting in Belarus. Thus, the limitation of salaries becomes one of the instruments both at the micro and macro level to fight against the global crisis.

Structural trends: Increasing hard currency deficit and a number of restrictive measures

State regulation. Decline of the external demand for Belarusian goods led to unfavorable dynamics of the exports revenues. In October, they decreased by 6.7% mom, despite in this month it has seasonal preconditions for growth. Thus, since October the global financial crisis began to influence the

Population: 9.69 m
Industry / GDP: 26.7%
Agriculture / GDP: 7.4%
Investment / GDP: 26.3%
Export destination: Russia 37%, EU 44%
Import origin: Russia 60%, EU 22%

Real GDP growth



Source: Ministry of Statistics and Analysis. Forecast for 2008: IPM Research Center.

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Belarusian economy sharply. It affected the domestic currency market, where the deficit began to grow rapidly. In order to limit it, the government and the NBB overtook a number of measures. First, NBB limited purchases of the hard currency at the non-exchange segment of the market. In order to purchase the currency at this segment, the enterprises should inform about the purpose of the transaction. The applications of the enterprises are analyzed at the NBB and only after it a commercial bank has a right to fulfill this application. Second, NBB introduced the Regulation that prohibits settlements on imports on the condition of the advance payments. They treat this as a measure against the outflow of speculative capital under the global financial distress. Third, the Ministry of Trade made a list of goods that are treated as non-critical imports and which may be restricted. Despite these measures, the deficit at the currency market keeps growing. At the stock-exchange the average daily deficit on US dollar trades increased by USD 33.3 m (USD 22.8 m in October), which resulted in decrease of international reserves. In October-November they decreased by 8.3%, but of taking in mind the Russian loan of USD 1 bn the figure is 32.6%. Thus limiting the deficit at the currency market becomes a priority current goal of the economic policy.

Foreign trade: Deceleration of exports growth

In Jan-Sep, the deficit of merchandise trade amounted to USD 4.1 bn, having grown by 48.9% yoy (44.4% yoy in Jan-Aug). In the 3rd quarter the deficit grew more than twice, which is consequent to the global crises. Most evident was a deceleration of exports growth to Russia. In the 1st and 2nd quarters it grew by 41.3 and 42.5% correspondingly, while in the 3rd quarter by 21.4% yoy (18.6% yoy in September). In the 3rd quarter in comparison to the 2nd quarter physical volume of supply of majority of goods to Russia dropped: of the combustion engines (by 25%), tractors (11%), truck tractors (4%), trucks (5%) and TV-sets (17%). Finally, in Jan-Sep the deficit of trade with Russia reached USD 10.6 bn, having increased by 97.7% yoy.

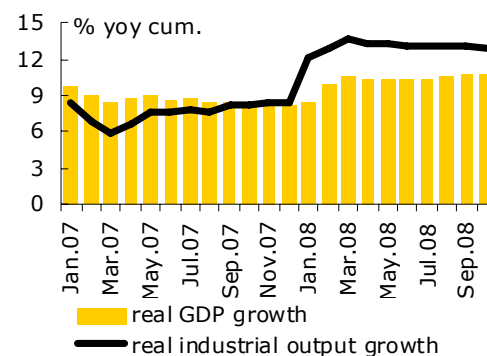
A part this deficit was compensated by the surplus in trade with non-CIS countries, which amounted to USD 5.3 bn in Jan-Sep, having increased by 2.3 times. But negative tendencies take place in trade with these countries as well. For instance, companies from South-Eastern Asia required for revision of prices on contracts for supply of potash fertilizers and delayed payments for already delivered products. Furthermore, buyers from Europe and Brazil, where the prices are formed on a spot basis are refusing from the agreed volumes of supply. Besides, there is a probability of prices revision of potash fertilizers supply to China and India, where long-term contracts will terminate by the end of this year and April, 2009 correspondingly. Thus there are threats for exports to non-CIS countries in the near future. Hence, the dynamics of the external demand for the Belarusian goods in 2009 is becoming a key indicator of the Belarusian economy stance under the condition of the global crisis.

Public finance: Maintaining budget surplus after three quarters

In Jan-Sep, consolidated revenues amounted to 51.5% of GDP, which is 2.2 percentage points higher than in Jan-Sep 2007. The growth of revenues was still due to oil products exports duties, which provide an increase of the revenues from the external economic activity by 1.8% of GDP. However, the revenues were decreased because of the cancellation of the turnover tax on users of highways, but it was compensated due to the increase in the profit tax revenues.

Consolidated expenditure amounted to 46.2% of GDP, which is by 0.8 percentage points more than in Jan-Sep 2007. The

GDP and Industrial Output



Source: National Statistical Committee.

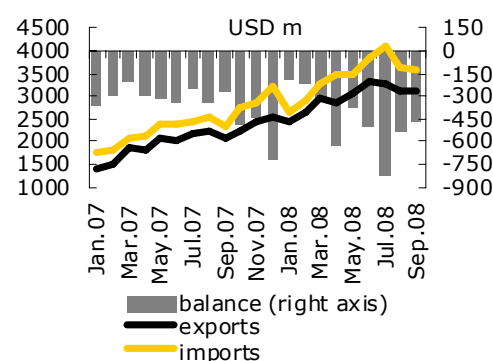
Contribution to Industrial Output Growth in Jan-Sep 2008

	Jan-Sep.08	Jan-Oct. 08	Change
Industry, total	13.1	12.8	-0.3
Electric power	0.6	0.6	-0.1
Fuel	2.2	2.3	0.0
Ferrous metallurgy	0.3	0.3	0.0
Chemical and petrochemical industry	1.0	1.0	0.0
Machinery and metalworking	3.1	2.9	-0.2
Logging, woodworking, pulp and paper	0.4	0.4	0.0
Building materials	0.4	0.4	0.0
Light	0.0	0.1	0.0
Food	1.3	1.3	-0.1
Other	3.7	3.7	0.1

Note. Data is given in percentage points.

Source: National Statistical Committee.

Merchandise Trade



Source: National Statistical Committee.

growth of subsidies for crude oil suppliers was the main reason for its growth. At the same time, expenditures for health-care, social policy and education decreased by 0.5, 0.9 and 0.5% of GDP correspondingly. Finally the surplus reached 5.3 of GDP (3.9% of GDP in Jan-Sep 2007). But it may be supposed, that because of the global crises there will be no further growth of the surplus and accumulated funds will be used for stimulating the national economy.

Monetary policy: Foreign currency demand grew

In October, net foreign assets of the monetary authorities reduced by 2.7% mom, which is about USD 135 m. This small decrease in net foreign assets was achieved due to the overnight loan from abroad by one of the Belarusian commercial bank of USD 623.3 m on October, 31, which was placed at the NBB as excess reserves. Hence the actual decline of international reserves was about USD 800 m. Furthermore, NBB substantially increased refinancing to banks in order to maintain Belarusian credit market. It resulted in increased claims on banks by 44.3% mom. Finally, base money grew in October by 12.2% mom, while in annual terms its growth rate amounted to 68.5% yoy (47.7% yoy in September). However, it should be emphasized that without this overnight loan base money shrank by 2.4% mom, which would be identical to 46.5% yoy of annual growth.

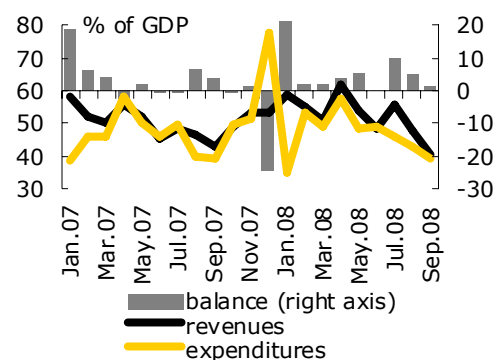
Outflow of liquidity impacted the Belarusian credit market only slightly and the growth rate of the credit to real economy was 57.2% yoy (57.6% yoy in September). It was mainly provided by increasing of government's deposits, which grew by 5.9% mom and refinancing by the NBB. Nevertheless the interest rates at the credit and deposit market increased. But under certain negative expectations of the economic agents in conditions of the global distress, it did not led to a substantial inflow of new deposits into the banking system. However, the positive tendency of increasing time deposits of the households in Belarusian rubles should be emphasized, but deposits of households in foreign currency and deposits of legal entities declined. Thus in October, ruble money decreased by 1.5% mom, while broad money by 2.4% mom. In annual terms their growth rates were 45.1 and 39.9% yoy correspondingly (48.8 and 47.6% yoy in September).

Consumer prices in October grew by 1.0% mom, mainly due to food and meals. In annual terms inflation amounted to 15.7% yoy (16.3% yoy in September). The exchange rate of the Belarusian ruble vs. US dollar was devaluated in October by 0.4% and as of October 31 was 2119 USD/BYR.

Banking sector: Capital increase for state banks

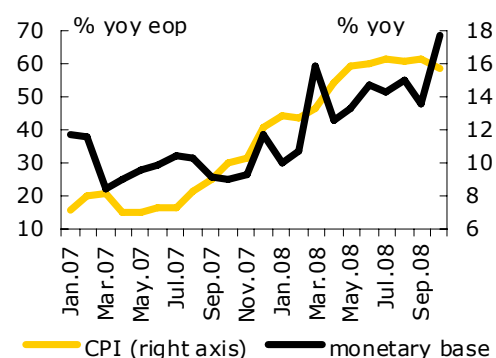
In December, a decision of providing additional capital of BYR 3 trn (about USD 1.4 bn) for state banks was made by the president. The bigger part of this sum (BYR 2 trn) de-facto will be provided to banks in the shape of government securities, while BYR 1 trn by money contribution, provided by changing the consolidated expenditure. The increase of the equity capital will improve the regulatory capital of the banks, but will have a limited impact on their actual liquidity stance. In overall, this measure may be considered, on the one hand, as the stimulation of the domestic credit market, which is logical during the financial crisis. But on the other hand, its effectiveness from the point of view of the credit market stimulation seems to be doubtful. Moreover, it contradicts to the declared direction for the liberalization of the national economy and reduction of consolidated expenditure during the crisis.

Consolidated Budget



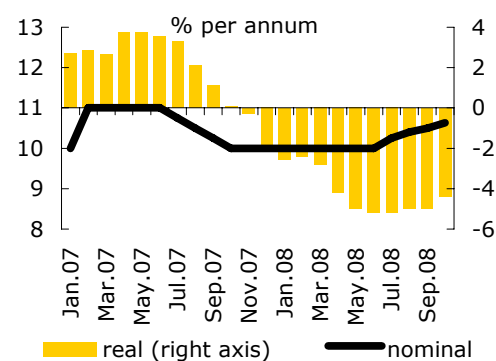
Source: calculations based on the National Statistical Committee data.

Monetary Base and CPI



Source: calculations based on the National Statistical Committee and the NBB data.

Refinancing rate



Source: calculations based on National Statistical Committee and the NBB data.

Economic Trends		Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Aug. 08	Sep. 08	Oct. 08
GDP growth	% yoy	10.8	8.4	8.9	8.4	7.3	10.9	10.1	11.2			
GDP growth	% yoy cum.	9.9	8.4	8.6	8.4	8.2	10.9	10.4	10.7	10.6	10.7	10.7
Industrial Production	% yoy cum.	11.3	5.9	7.7	8.2	8.5	14.7	13.0	13.1	13.1	13.1	12.8
Agricultural Production	% yoy cum.	6.1	4.4	5.2	5.6	4.1	6.8	5.4	6.9	7.4	6.9	8.1
CPI	% yoy eop	6.6	8.1	7.2	9.0	12.1	13.2	16.0	16.3	16.2	16.3	15.7
PPI	% yoy eop	8.5	11.6	13.6	16.8	17.1	13.5	16.2	18.5	18.0	18.5	19.0
Merchandise export (USD)*	% yoy	13.6	6.3	23.3	18.5	44.4	69.2	56.0	--	42.1	47.6	--
Merchandise import (USD)*	% yoy	23.5	20.8	23.7	23.8	42.4	56.5	55.3	--	42.8	50.1	--
Merchandise trade balance (NBB data)	USD m cum.	-2398	-836	-1563	-2304	-3858	-647	-2049	--	-3344	-3808	-4362
Current account	USD m cum.	-1512	-641	-1152	-1652	-2944	-433	-1411	--	--	--	--
Current account	% GDP cum	-4.1	-7.0	-5.8	-5.1	-6.6	-3.6	-5.5	--	--	--	--
International reserves	USD m eop	1383	1565	2344	2155	4182	4746	4618	4120	4580	4120	4052
Monetary base	% yoy eop	20	22	29	25	38	59	54	48	55	48	69
Lending rate**	% p.a. aop	12	14	11	12	12	11	10	11	11	11	12
Exchange rate (official)	USD aop	2141	2141	2145	2147	2152	2148	2136	2114	2111	2112	2114
Exchange rate (official)	EUR aop	2761	2805	2890	2948	3115	3215	3339	3183	3173	3039	2830

* Growth rates in value terms (source: Ministry of Statistics and Analysis).

** Nominal rate of commercial banks for new loans for legal entities in national currency.

Sources: Ministry of Statistics and Analysis, NBB.

Key Economic Indicators		2001	2002	2003	2004	2005	2006	2007
Nominal GDP*	BYR trn	17.173	26.613	36.565	49.991	65.067	79.231	96.047
Nominal GDP**	USD bn	12.1	14.5	17.7	23.1	30.2	36.9	44.8
GDP Growth	% yoy	4.7	5.0	7.0	11.4	9.4	9.9	8.2
Industrial production	% yoy	5.9	4.5	7.1	15.9	10.5	11.3	8.5
Agricultural production	% yoy	1.8	0.7	6.6	12.6	1.7	6.1	4.1
CPI	% yoy aop	61.1	42.6	28.4	18.1	10.3	7.0	8.4
CPI	% yoy eop	46.1	34.8	25.4	14.4	8.0	6.6	12.1
PPI	% yoy aop	72.1	41.4	37.5	24.1	12.1	8.3	16.2
PPI	% yoy eop	40.9	42.7	28.1	18.8	10.0	8.5	17.1
Exports (gs, USD)	% yoy	10.9	9.8	24.4	35.7	15.8	21.8	24.3
Imports (gs, USD)	% yoy	11.1	9.0	25.1	40.3	3.0	33.0	27.9
Current account	USD m	-394	-311	-424	-1206	510	-1512	-2944
Current account	% GDP	-3.2	-2.1	-2.4	-5.2	1.7	-4.1	-6.6
FDI (net)	USD m	96	453	170	163	303	351	1768.9
International reserves	USD m	347	457	474	770	1297	1383	4182
Fiscal balance	% GDP	-1.6	-0.2	-1.6	0.0	-0.6	2.2	0.6
Domestic public debt	% GDP eop	6.1	5.4	5.5	5.7	5.8	6.5	6.4
External debt (total)	% GDP eop	24.8	27.0	23.7	21.4	17.9	18.6	28.4
Monetary base	% yoy eop	225	32	50	42	74	20	38
Exchange rate (official)*	USD aop	1394	1784	2075	2160	2154	2145	2146
Exchange rate (official)*	USD eop	1580	1920	2156	2170	2152	2140	2150
Spread***	% aop	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Spread***	% eop	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Exchange rate (official)*	EUR aop	1239	1690	2353	2684	2681	2692	2937
Exchange rate (official)*	EUR eop	1392	1989	2695	2956	2550	2817	3167

* On January 1, 2000 the Belarusian ruble was denominated 1:1000. All figures for 1999 are given in 'new' Belarusian rubles.

** For the period of 1999–2000, GDP in USD is calculated by using the market (unofficial) exchange rate (source: IPM Research Center).

*** Spread between the black market and official (NBB) exchange rates (source: IPM Research Center).

Sources: Ministry of Statistics and Analysis, Ministry of Finance, NBB, IPM Research Center.

Notes:

aop	average of period	gs	goods and services
avg	average	trn	trillion
bn	Billion	NBB	National Bank of Belarus
cum.	cumulative	p.a.	per annum
eop	end of period	yoy	year-on-year
m	million	ytd	year-to-date